

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6567

BILL NUMBER: HB 1265

NOTE PREPARED: Feb 24, 2004

BILL AMENDED: Feb 19, 2004

SUBJECT: Bulk Purchasing of Prescription Drugs.

FIRST AUTHOR: Rep. Kersey

FIRST SPONSOR: Sen. Gard

BILL STATUS: As Passed Senate

FUNDS AFFECTED: X GENERAL
DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill requires the State Personnel Department to establish an aggregate prescription drug purchasing program to negotiate terms related to the purchase of prescription drugs. It requires participation by certain entities and allows participation by other certain entities. The bill authorizes the state to enter into multi-state prescription drug aggregate purchasing agreements. The bill also requires the Budget Agency to report to the Budget Committee on participation in a regional or multi-state prescription drug aggregate purchasing program.

Effective Date: July 1, 2004.

Explanation of State Expenditures: *State Aggregate Prescription Drug Purchasing Program:* This bill requires the State Personnel Department to establish, implement, and maintain a state aggregate prescription drug purchasing program with the approval of the Budget Agency. The Department is to publish a request for proposal (RFP), negotiate the terms, and contract for the purchase of prescription drugs. The bill allows the Department to enter into a multi-state prescription drug joint-purchasing compact to purchase drugs in aggregate or provide for lower reimbursement to implement the program. The savings the state could realize through the establishment of this program could be substantial. The State Budget Agency has estimated state pharmaceutical expenditures other than Medicaid to be about \$104.4 M annually. Of that amount, state employee's health insurance plans were reported to have paid prescription drug claims of \$57.5 M for a 12-month period. The fiscal impact of this provision would be dependent upon administrative action and the final contractual arrangement negotiated, as well as the number of state agencies or local units that choose to participate. The program could result in significant cost reductions.

The bill requires the participation of health benefit plans that are administered by the Department, including the state employees' self-insured benefit plans, state employees' participation in prepaid managed care plans

(HMO's), and any local units that choose to have the State Department of Personnel administer their group health coverage. The bill would require state post-secondary institutions to participate in the program unless the State Budget Agency makes a determination that the institution's participation would not result in a financial benefit.

The bill would allow the participation of other state agencies that purchase or arrange for the purchase of prescription drugs, the Indiana Comprehensive Health Insurance Association (ICHIA) and local units of government including cities, towns, counties, townships, libraries, and school corporations. The bill prohibits the state Medicaid program from participating in the program.

The bill prohibits the program from purchasing prescription drugs imported from another country in violation of federal law. It further specifies that the program is to be freely negotiated on the part of drug manufacturers. The state may not penalize a manufacturer for nonparticipation in the bulk prescription drug purchasing program by requiring prior authorization for a prescription drug in the state Medicaid program.

Regional or Multi-State Drug Purchasing Program: The bill requires the State Budget Agency to conduct a study on the feasibility of the state's participation in a regional or multi-state drug purchasing program. The Budget Agency is required to submit a written report to the State Budget Committee by November 1, 2004. The Budget Agency assembled a health care finance task force in June of 2003 to look at related issues. The Budget Agency reported in November 2003, that the State Department of Health was currently participating in the Minnesota Multi-State Purchasing Pool to purchase drugs (mainly vaccines).

The bill prohibits the state from participating in regional or multi-state purchasing programs that purchase prescription drugs imported from another country in violation of federal law. It further prohibits the state's participation in regional or multi-state purchasing programs that are not freely negotiated on the part of drug manufacturers. The state may not participate in a purchasing program that penalizes a manufacturer for nonparticipation in the aggregate prescription drug purchasing program by requiring prior authorization for a prescription drug in the state Medicaid program. These provisions may limit the opportunity to maximize savings by decreasing the number of regional or multi-state purchasing programs in which the state may choose to participate even if Indiana did not select the use of these options in the program to be established.

Explanation of State Revenues: Savings generated as a result of reduced expenditures for employee benefits would be expected to reduce the amount of federal participation received as reimbursement for direct and indirect costs associated with employee benefits. Shared state and federal programs such as Medicaid split the cost of administrative expenses including employee benefits. In these programs, a decrease in state expense will result in federal savings as well.

Explanation of Local Expenditures: Related local expenditures could be reduced depending on participation.

Explanation of Local Revenues:

State Agencies Affected: Potentially all.

Local Agencies Affected: Any cities, towns, townships, counties, libraries, or school corporations that choose to participate.

Information Sources: "Pharmaceutical Bulk Purchasing: Multi-state and Inter-agency Plans National

Conference of State Legislatures at www.ncsl.org/programs/health/bulkrx.htm, and “November 12, 2003 Report from State Budget Agency on Health Care Expenditures to the Government Efficiency Commission, General Government Committee .

Fiscal Analyst: Kathy Norris, 317-234-1360.